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SUBJECT: Kaneka Seeks FIT to be Tied to Green New Deal

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¶1. (SBU) Summary: Kaneka Corporation, a leading innovator in thin-film solar cell production remains focused on the European market and has no immediate plans to make green energy investments in the United States. While its much larger Japanese solar rivals such as Sharp and Panasonic/Sanyo are accelerating U.S. bound solar investments (reftel), Kaneka is waiting to see whether the United States will introduce a feed-in-tariff (FIT) or similar incentives that the company believes are necessary to assure long-term viability for a large solar cell production facility investment.

¶2. (SBU) In exploring Japanese companiesQ willingness to invest in green energy sectors in the United States, we met with Mikio Hatta, Managing Executive Officer, Solar Energy Division at Kaneka Corporation. Hatta says that Kaneka is closely watching the rollout of alternative energy policies under the Obama Administration, but for now, his company is focused on the EU photo-voltaic (PV) market where it is nearing a final decision on whether to build a new USD200 million thin-film solar cell production facility at its existing complex in Belgium. Kaneka does plan to boost its PV production capacity from 70MW to 1000MW a year by 2015 to meet anticipated demand, and the company plans to invest an estimated USD1 billion to meet this goal. The yenQs recent appreciation against the dollar makes establishing PV production in the United States more costly for a Japanese company like Kaneka, but assuming domestic demand increases under the Obama Administrations New Green Deal, Hatta says the US possesses the supply chain management (SCM) and access to raw materials Kaneka needs for the PV production.

U.S. and Japan Need Feed-in-Tariffs (FIT)

¶3. (SBU) The PV industry is very competitive, and only

companies capable of lowering production costs to USD1/watt will be successful, says Hatta. To date, only Kaneka and US-based First Solar have achieved this level, both by using thin-film solar cells which use less silicon to cut production costs, but at lower electricity conversion rates. Hatta believes that the establishment of a feed-in-tariff (FIT) system is likely a pre-requisite to assure development of the PV industry in the United States and Japan. The GOJQs recent decision to reinitiate a tax subsidy for installing PV panels on residences will likely boost domestic consumption from the current 20 to 30 percent to closer to 50 percent of the 1000MW (2007 figure) of domestically produced PV capacity, says Hatta. The USG, too, he says, needs to come up with similar policies to expand domestic demand for solar cells if it hopes to meet the goals for alternative energy production outlined in the Obama AdministrationQs campaign proposals. The best way to do this, says Hatta, is to follow EuropeQs FIT model.

¶4. (SBU) In Japan, electric products manufacturers such as Sharp, Sanyo, and Kyocera have led the establishment of the PV industry. By contrast, in Europe, the FIT incentive structure has encouraged oil and energy companies such as British Petroleum and Shell to lead the way, says Hatta. In the United States, the PV business was launched by small venture capital financed companies, but recently large companies, such as the major oil companies and General Electric have become active as well, and the timing is good for a shift in the US incentive structure to establish a sustainable PV industry. While the GOJ has not adopted a European-style FIT system, it does require domestic electricity producers to meet Renewable Portfolio Standards (RPS), which effectively mandate that at least 1.65 percent

of total energy comes from solar cells, says Hatta. To date, the RPS requirements have applied only to electric power companies, but he believes the GOJ should apply the requirement to other energy related companies such as gas and oil companies to assure stable development of the PV industry.

¶5. (SBU) Hatta views the GOJ target of increasing PV production in Japan to 10GW by 2010 as overly ambitious given current PV production levels and conversion efficiencies. Kaneka has launched a GOJ backed joint project with a group of academics to enhance thin-film PVs with hybrid gas technologies to achieve its goal of improving the conversion efficiency of its thin-film cells from the current 14 percent to 18 percent. In December 2008, Kaneka announced plans to build a new 150 MW, Y10 billion (USD111 million) facility for thin-film PV incorporating this hybrid technology.

China, Korea and Taiwan Export Only Focus

¶6. (SBU) Hatta says that although the Chinese Government has budgeted RMB4 trillion (USD586 billion) for infrastructure projects including solar projects over the next two years, the domestic demand for solar power in China is still low and ChinaQs PV industry is primarily export focused. The quality of ChinaQs PV products is improving, says Hatta, but Japanese, German and U.S. PV companies will maintain price, quality and efficiency advantages for the foreseeable future. Even SunTech Power, ChinaQs top PV producer and ranked among the top five PV producers worldwide is not competitive on price, he believes. Similarly, many companies in Korea and Taiwan have expressed interest in KanekaQs PV technology, but Hatta says Kaneka is reluctant to do business in these markets because it believes the PV industry will not develop in these countries due to a lack of domestic demand. Even in Japan, Hatta notes, the GOJ still prefers developing nuclear energy to solar energy due to cost concerns.

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